

Message Text

PAGE 01 KINGST 04177 202025Z

44

ACTION SS-25

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O 201845Z NOV 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 6305

INFO AMEMBASSY CANBERRA IMMEDIATE

AMEMBASSY CARACAS IMMEDIATE

AMEMBASSY CONAKRY IMMEDIATE

AMEMBASSY GEORGETOWN IMMEDIATE

AMEMBASSY MEXICO IMMEDIATE

AMEMBASSY PORT AU PRINCE IMMEDIATE

AMEMBASSY PORT OF SPAIN IMMEDIATE

AMEMBASSY SANTO DOMINGO IMMEDIATE

C O N F I D E N T I A L KINGSTON 4177/1

EXDIS

EO 11652: GDS

TAGS: EMIN, JM

SUBJECT: BAUXITE: KAISER AND GOJ ACHIEVE AGREEMENT

1. SUMMARY: KAISER ALUMINUM AND THE GOJ HAVE REACHED SUBSTANTIAL AGREEMENT ON ALL MAJOR ISSUES INCLUDING REVENUES, LAND, PARTICIPATION, AND EXPANSION. ANNOUNCEMENTS WILL BE MADE JOINTLY IN JAMAICA AT NOON TODAY, AND OTHERS TOMORROW. AGREEMENT ON THE REVENUE ISSUE WILL PRESUMABLY NULLIFY KAISER'S ICSID INITIATIVE. KAISER AGREEMENT MAY PROVE TO BE A PACE-SETTER FOR REVERE, REYNOLDS, AND ANACONDA BUT WILL PROBABLY NOT BE APPLICABLE TO ALCOA AND ALCAN INTERESTS IN JAMAICA. KAISER AGREEMENT COULD ALSO BE A MODEL FOR OTHER IBA COUNTRIES IN NEGOTIATING A NEW RELATIONSHIP WITH MULTINATIONALS.

2. AT 2:36 AM ON NOVEMBER 20 CORNELL MAIER OF KAISER ALUMINUM REACHED A "HAND SHAKE" AGREEMENT WITH GOJ NEGOTIATORS ON ALL MAJOR OUTSTANDING ISSUES. AN ANNOUNCEMENT OF THE FACT OF THE AGREEMENT AND ITS GENERAL SHAPE IS TO BE CONFIDENTIAL

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MADE AT NOON TODAY BY KAISER AND THE GOJ. AN ANNOUNCEMENT ON EXPANSION PLANS UNDER A JOINT VENTURE ARRANGEMENT IS TO BE MADE TOMORROW. WHILE AGREEMENT HAS BEEN REACHED ON ALL MAJOR ISSUES, GETTING IT FIRMED UP AND ON PAPER MAY TAKE

DAYS OR WEEKS. THE CHIEF FEATURES OF THE AGREEMENT ARE AS FOLLOWS:

3. A. KAISER ALUMINUM AGREES TO SELL THE GOJ 51 PERCENT EQUITY INTEREST IN ITS JAMAICAN OPERATIONS AT BOOK VALUE. WHILE THE GOJ WILL HAVE MAJORITY OWNERSHIP, THERE WILL BE A SEPARATE PARTNERSHIP AGREEMENT BETWEEN THE PARTIES WHICH WILL DISTRIBUTE VOTING POWER AND BROAD MEMBERSHIP EQUALLY.

4. B. KAISER WILL SELL BAUXITE LANDS BACK TO THE GOVERNMENT AT CURRENT BOOK VALUE AND LEASE THEM BACK AT A PRICE EQUAL TO THE INTEREST THE GOJ COULD OBTAIN ON THE MONEY IT PAID FOR THE LANDS. THE NET EFFECT IS TO TRANSFER OWNERSHIP OF THE LAND TO THE GOJ AND GIVE IT A SIGNIFICANT POLITICAL VICTORY WITHOUT REAL COSTS TO EITHER SIDE.

5. C. KAISER WILL MANAGE THE NEW JOINTLY-OWNED COMPANY UNDER A MANAGEMENT CONTRACT SPECIFYING REIMBURSEMENT TO KAISER FOR COST OF MANAGEMENT BUT NOT OTHER FEES OR PROFITS.

6. D. ON REVENUE, WHICH HAS BEEN THE CRITICAL ISSUE FOR KAISER, THE GOJ AGREES TO FREEZE THE LEVY RATE AT THE CURRENT 7 1/2 PERCENT OF INGOT PRICE FOR AN ADDITIONAL THREE YEARS, 1975-76-77. DEPARTMENT WILL RECALL THAT THE RATE WAS DUE TO GO UP TO 8 PERCENT JAN. 1. THE GOJ AGREES THAT FOR AN ADDITIONAL TWO YEARS (1978-79) KAISER'S LEVY RATE WILL BE 1 PERCENT BELOW THAT ESTABLISHED IN LAW AS THE BASIC LEVY RATE. THE REVENUE FORMULA WILL CONTAIN NEITHER UP OR DOWN ESCALATOR CLAUSES, THUS EXCISING AN ISSUE WHICH HAS CONFUSED AND COMPLICATED NEGOTIATIONS FOR THE PAST NINE MONTHS.

7. ACCORDING TO CORNELL MAIER OF KAISER, THE GOJ SAID IT IS PREPARED TO OFFER THE SAME PACKAGE DEAL TO ANY COMPANY OBTAINING 60 PERCENT OR MORE OF ITS RAW MATERIALS IN JAMAICA. COMPANIES FALLING UNDER THIS HEADING INCLUDE KAISER, REYNOLDS, REVERE AND ANACONDA.

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8. AGREEMENT IN PRINCIPLE HAS ALSO BEEN REACHED ON A JOINT VENTURE BETWEEN KAISER AND THE GOJ FOR THE CONSTRUCTION OF AN 800,000 TON ALUMINA REFINERY ON JAMAICA'S SOUTH COAST, BUT THERE ARE FEW DETAILS AVAILABLE AT THIS WRITING. KAISER WILL PUT UP ONE QUARTER OF THE CAPITAL OR 25 PERCENT OF THE EQUITY, AND AGREE TO USE OR MARKET 200,000 TONS OF THE FINAL OUTPUT. THE PLANT WILL BE DESIGNED AND CONSTRUCTED BY KAISER ENGINEERING, INC., AND IT WILL BE RUN BY KAISER ALUMINUM UNDER A MANAGEMENT CONTRACT ON A FEE BASIS. THE FEE STRUCTURE IS AMONG THE DETAILS YET TO BE SETTLED.

9. WHILE KAISER REPS HAVE NOT SAID SO, AGREEMENT ON REVENUE AND OTHER ISSUES WITH THE GOJ PRESUMABLY NULLIFIES

KAISER'S ICSID CLAIM. SHOULD REYNOLDS FOLLOW KAISER'S
LEAD, ALCOA MAY FIND ITSELF ALL ALONE IN PURSUING ICSID
INITIATIVE

10. IN REPORTING THE GENERAL SHAPE OF THE AGREEMENT
MAIER SEEMED PLEASED WITH THE OUTCOME. HE SAID THAT PM
MANLEY WAS OBVIOUSLY UNDER CONSIDERABLE PRESSURE AND
ANXIOUS TO REACH AN AGREEMENT. THIS PERMITTED SOME REAL
CONCESSIONS ON THE GOVERNMENT'S SIDE, PARTICULARLY IN THE
REVENUE AREA. IN OTHER AREAS BOTH SIDES REALIZED THAT
THEY WERE UNLIKELY TO ACHIEVE THEIR HEART'S DESIRE AND
THIS REALIZATION COUPLED WITH THE GENERALLY CONCILIATORY
ATMOSPHERE PERMITTED A FAIRLY CLEAN AGREEMENT UNENCUMBERED
BY COMPLICATED CAVEATS AND SAFETY VALVES. WE RECALL A
REMARK MADE BY MAIER IN THE COURSE OF THE NEGOTIATIONS LAST
SPRING WHEN HE SAID THE BASIC ISSUE WAS WHETHER THE PARTIES
COULD STILL TRUST ONE ANOTHER AND NOT PARTICULAR PRICING OR
OTHER ARRANGMENTS. IT APPEARS THAT TRUST STILL IS POSSIBLE
AT LEAST AS FAR AS KAISER IS CONCERNED.

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C O N F I D E N T I A L FINAL SECTION OF 2 KINGSTON 4177/2

EXDIS

11. IN MAKING HIS REPORT MAIER GAVE CONSIDERABLE CREDIT TO
THE DEPARTMENT AND THIS MISSION IN CREATING AND MAINTAINING
A CONSTRUCTIVE ATMOSPHERE FOR THE NEGOTIATIONS, APPLYING
DISCREET PRESSURE AT THE PROPER MOMENTS, AND PROVIDING
ADVICE TO THE COMPANIES AS REQUIRED. HE SAID HE DOUBTED
AGREEMENT COULD HAVE BEEN ACHIEVED IN THE ABSENCE OF THE
USG CONTRIBUTION.

12. COMMENT: THE KAISER AGREEMENT IS CLEARLY A SIGNIFICANT STEP FORWARD. IT GIVES KAISER THREE YEARS OF STABILITY AND MARGINAL BUT SIGNIFICANT ADVANTAGE OVER COMPETITORS FOR AN ADDITIONAL TWO YEARS, THEREBY MEETING ITS MOST IMPORTANT CONCERNS. THE AGREEMENT GIVES THE GOJ IMPORTANT POLITICAL ADVANTAGES, ESPECIALLY 51 PERCENT OWNERSHIP AND RETURN OF ALL LAND, WITHOUT INCREASING COSTS TO THE COMPANY. SIGNIFICANT PROBLEMS MAY ARISE AS DETAILS ARE WORKED OUT BUT THE GENERAL OUTLINE IS SIMPLE, WORKABLE, AND ALMOST ELEGANT.

13. IT IS UNCLEAR WHETHER THE KAISER AGREEMENT WILL APPEAL
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TO THE OTHER COMPANIES, THE SITUATIONS OF WHICH DIFFER FROM KAISER'S IN GREATER OR LESSER DEGREE. THOUGH REYNOLDS HAS TENDED TO BE TOUGH IN ITS APPROACH IT, LIKE KAISER, IS ALMOST WHOLLY DEPENDENT ON JAMAICA AS ITS SOURCE OF SUPPLY. ANACONDA IS IN A SOMEWHAT MORE INDEPENDENT POSITION SINCE ALUMINUM FORMS ONLY A PART OF ITS BUSINESS, BUT IT IS TRAPPED IN A PARTNERSHIP WITH KAISER AND REYNOLDS. REVERE IS HEAVILY DEPENDENT ON GOVERNMENT FAVOR, BUT ITS TOP NEGOTIATORS WHO RETURNED TO JAMAICA LAST NIGHT FEAR THEIR JAPANESE ASSOCIATES MAY NOT RELISH BECOMING A PARTNER OF THE JAMAICAN GOVERNMENT, AND ARE LIKELY TO BE EVEN LESS HAPPY ABOUT THE CURRENT STORM OVER SOCIALISM IN JAMAICA. THEY REPORT IT MAY BE MORE DIFFICULT FOR THEM TO ACHIEVE A SOLUTION TO THEIR PROBLEMS IN THE WAKE OF THE KAISER AGREEMENT THAN IT WAS BEFORE. IT SEEMS TO US, HOWEVER, THAT IF REVERAZMAS UNDER PRESSURE TO REACH AGREEMENT BEFORE, THE PRESSURE WILL BE ENORMOUSLY INCREASED BY THE FACT OF THE KAISER AGREEMENT.

14. ANOTHER SIGNIFICANT FACTOR OF THE KAISER AGREEMENT AND THE GOVERNMENT'S DECISION TO OFFER A SIMILAR PACKAGE TO COMPANIES GETTING MORE THAN 60 PERCENT OF THEIR BAUXITE FROM JAMAICA IS ITS TENDENCY TO ISOLATE ALCAN AND ALCOA. IF THE OTHER FOUR COMPANIES DO ACCEPT SIMILAR AGREEMENTS, THE GOJ WILL BE IN A POSITION TO OFFER THE PACKAGE TO ALCOA AND ALCAN ON A TAKE-IT OR LEAVE-IT BASIS. IT WILL BE INTERESTING TO SEE WHICH THEY DO.

15. IT IS EARLY TO SPECULATE ON THE DEGREE TO WHICH THE KAISER AGREEMENT MIGHT SERVE AS A MODEL FOR OTHER IBA MEMBERS IN NEGOTIATING SOLUTIONS WITH MULTINATIONALS IN THEIR COUNTRIES, BUT ITS RELATIVELY SIMPLE AND STRAIGHT-FORWARD CHARACTER LENDS IT OBVIOUS POTENTIAL AS A MODEL.
GERARD

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